Festi hf.

Condensed Consolidated Interim Financial Statements

1 January to 30 September 2018

This is a translation of the Icelandic original. In the event of discrepancies between the Icelandic language version and any translation thereof, the Icelandic language version will prevail.

Festi hf.
Dalvegur 10-14
201 Kópavogur

Reg. No. 540206-2010

Contents

Endorsement and Statement by the Board of Directors and the CEO

Acquisition of a subsidiary

On 30 July 2018 the Icelandic Competition Authority (ICA) approved N1´s acquisition of all share capital of Festi hf. By the acquisition, which were subject to certain conditions, N1 obtained control of Festi which became a subsidiary of N1. At a shareholder meeting held on 25 September it was approved to change the name of the parent company, N1 hf., to Festi hf. and the name of the subsidiary, Festi hf., to Hlekkur ehf.

Hlekkur ehf. operates grocery stores under the brand names of Krónan, Kr, Nóatún and Kjarval, as well as the electrical appliance store ELKO and Bakkinn warehouse hotel. The date of acquisition was 1 September 2018. From that time Hlekkur ehf. and its subsidiaries became a part of the group. The objective of the acquisition is operational optimisation and subsequently more robust and better service for customers of both companies. The purchase price was in the amount of ISK 25,102 million. Since the purchase price was partly paid by issue of new share capital of Festi the final purchase price was determined by the market price of the company´s share as at the acquisition date. By the transactions former owners of Hlekkur ehf. obtained 24.1% ownership of share capital in the parent company, Festi. Half of those shares are subject to lock-up provisions, as sale of those shares is prohibited until year-end 2018. In the notes to the financial statements further disclosures are made regarding the acquisition, their financing, purchase price allocation, ICA´s conditions and refinancing of long-term borrowings.

Changes of board members and corporate governance

At a shareholder meeting held on 25 September 2018 a new Board of Directors of the parent company was appointed. Furthermore, a proposal for a new name of the company was approved. New board members are Björgólfur Jóhannsson, Guðjón Karl Reynisson and Þórður Már Jóhannesson. Kristín Guðmundsdóttir and Margrét Guðmundsdóttir continue as board members. At a board meeting following the shareholder meeting Margrét was reappointed as chairman of the board and Þórður Már appointed vice-chairman. At the same meeting a new competition policy for the Company was approved in accordance to article 25 of the agreement reached between the Company and the ICA due to the acquisition of Hlekkur and its subsidiaries. A revised remuneration policy was approved as well as a proposal for rules regarding a nomination committee in the board's rules of conduct. Members of the nomination committee are Sigrún Ragna Ólafsdóttir, Tryggvi Pálsson and Þórður Már Jóhannesson.

Operations for the period

The condensed consolidated interim financial statements of Festi hf., (formerly N1 hf.) for the period 1 January to 30 September 2018 is prepared in accordance with the International Financial Reporting Standard for interim financial period, IAS 34.

The consolidated interim financial statements comprise of the operations, financial position and cash flows of Festi hf. and its subsidiary, Ego ehf., for the first 9 months of the year and operations, financial position and cash flows of the subsidiary Hlekkur ehf. and its subsidiaries for the period 1 to 30 September 2018, i.e. since the time Festi hf. (then N1 hf.) obtained control over Hlekkur ehf. (then Festi hf.) and its subsidiaries. Comparative information for the year 2017 has not been restated and therefore only comprise of the operations, financial position and cash flows of Festi hf. and the subsidiary Ego ehf.

The Group´s operating revenue for the first 9 months of the year was in the amount of ISK 36,807 million. According to the statement of income and comprehensive income, profit for the period was in the amount of ISK 1,619 million. However, when taking into account translation difference due to the operation of a foreign associated Company the Group´s total comprehensive income amounts to ISK 1,634 million. The Group´s equity at the end of the period amounted to ISK 25,512 million, including share capital in the amount of ISK 330 million.

.

Endorsement and Statement of the Board of Directors and the CEO, contd.:

Shareholders

At the end of the period the Company's shareholders were 899 compared to 1,158 at the beginning of the year. Following are the Company's ten biggest shareholders at the end of the period:

Lífeyrissjóður verslunarmanna	10,1%
Stefnir	9,0%
Gildi - lífeyrissjóður	8,4%
Lífeyrissjóður starfsmanna ríkisins A, B and S-division	7,9%
Lansdowne Icav Lansdowne Euro	6,1%
Birta lífeyrissjóður	4,9%
Almenni lífeyrissjóðurinn	4,8%
Global Macro funds (Eaton)	4,5%
Landsbréf	3,1%
Stapi lífeyrissjóður	3,1%

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Festi hf. for the period from 1 January to 30 September 2018 are prepared in accordance with the International Financial Reporting Standard for interim financial reporting, IAS 34. According to our best knowledge it is our opinion that the consolidated interim financial statements give a fair view of the Group's assets, liabilities and financial position as at 30 September 2018 and operating results and changes in cash flows during the period from 1 January to 30 September 2018.

Furthermore, it is our opinion that the condensed consolidated interim financial statements and the Endorsement by the Board of Directors and the CEO give a fair view of the Group's results, financial position and development and describe the main risk factors and uncertainty faced by the Group.

The Board of Directors and the CEO of Festi hf. have today discussed the Company's consolidated interim financial statements for the period from 1 January to 30 September 2018 and confirm them with their signatures.

Kópavogur, 28 November 2018

The Board of Directors of Festi hf.

Margrét Guðmundsdóttir
Chairman of the Board

Björgólfur Jóhannsson

Kristín Guðmundsdóttir

Þórður Már Jóhannesson

Guðjón Karl Reynisson

CEO

Eggert Þór Kristófersson

Statement of income and comprehensive Income
1 January to 30 September 2018

	Notes	2018 1.7.-30.9.	2017 1.7.-30.9.	2018 1.1.-30.9.	2017 1.1.-30.9.
Sales	9	17.486.413	10.591.794	36.401.149	26.467.147
Cost of goods sold		(12.985.229)	(7.094.335)	(26.372.847)	(17.868.701)
Gross profit	10	4.501.184	3.497.459	10.028.302	8.598.446
Lease revenue and other operating income		176.608	92.546	405.697	294.035
Salaries and other personnel expenses		(1.593.094)	(1.109.297)	(3.924.564)	(3.352.918)
Sales and distribution expenses		(849.207)	(676.167)	(1.897.288)	(1.756.376)
Other operating expenses		(614.241)	(395.236)	(1.513.397)	(1.084.622)
		(3.056.542)	(2.180.700)	(7.335.249)	(6.193.917)
Profit before depreciation, amortisation and fair valur changes		1.621.250	1.409.305	3.098.749	2.698.564
Depreciation and amortisation		(308.227)	(248.133)	(810.465)	(733.426)
Fair value changes of investment properties		10.951	0	10.951	0
Operating profit		1.323.974	1.161.172	2.299.235	1.965.139
Finance income		29.434	16.517	69.148	54.988
Finance expenses		(412.209)	(97.849)	(622.061)	(296.510)
Foreign currency difference		19.535	20.129	48.440	13.133
Share of profit from associates		115.691	82.778	174.351	237.483
Fair value changes of shares in other companies		(13.353)	689	(15.796)	4.263
		(260.902)	22.266	(345.918)	13.358
Profit before income tax		1.063.072	1.183.438	1.953.317	1.978.496
Income tax	11	(192.018)	(220.741)	(334.142)	(349.651)
Profit for the period		871.054	962.697	1.619.175	1.628.845
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Translation difference arising from from operations of a foreign associate		20.830	27.447	15.012	10.517
Total comprehensive income for the period		891.884	990.143	1.634.187	1.639.362
Basic and diluted earnings per share in ISK		3,16	3,85	6,26	6,52

Notes on pages 10 to 18 are an integral part of these consolidated interim financial statements.

Amounts are in ISK thousand

Statement of Financial Position as at 30 September 2018

	Notes	30.9.2018	31.12.2017
Assets			
Goodwill		13.919.474	0
Other intangible assets		4.735.002	214.987
Property and equipment		32.251.289	16.940.226
Investment properties		8.739.216	0
Shares in associates		2.030.855	1.839.908
Securities		153.430	136.582
Non-current assets		61.829.267	19.131.704
Inventories		7.278.285	2.840.403
Trade receivables		4.334.446	2.747.377
Other short-term receivables		406.673	136.852
Cash and cash equivalents		6.313.634	2.800.082
Current assets		18.333.038	8.524.714
Total assets		80.162.305	27.656.418
Equity			
Share capital		329.574	250.000
Share premium		13.120.490	3.153.857
Other restricted equity		5.556.870	4.131.579
Retained earnings		6.505.131	6.276.344
Total equity		25.512.065	13.811.779
Liabilities			
Payable to credit institutions	12	34.154.531	8.000.000
Deferred tax liabilities	13	3.963.601	1.484.715
Non-current liabilities		38.118.131	9.484.715
Current tax		769.861	444.276
Payable to the Icelandic State		3.934.154	2.058.077
Payable to credit institutions	12	3.736.572	0
Trade payables		6.203.365	1.180.125
Other short-term liabilities		1.888.157	677.446
Current liabilities		16.532.108	4.359.924
Total liabilities		54.650.240	13.844.639
Total equity and liabilities		80.162.305	27.656.418

Notes on pages 10 to 18 are an integral part of these consolidated interim financial statements.

Amounts are in ISK thousand

Statement of Changes in Equity 30 September 2018

			Other restricted equity					
	Share Capital	Share premium	Statutory reserve	Revaluation reserve	Unrealised profit of subsdiraris and associated company	Translation reserve	Retained earnings	Total equity
1 January to 30 September 2018								
Equity 1.1.2018	250.000	3.153.857	62.500	3.846.730	376.857	(154.490)	6.276.324	13.811.779
Share capital increase	79.574	9.986.526						10.066.100
Contribution to statutory reserve		(19.893)	19.893					0
Total comprehensive income for the period						15.012	1.619.175	1.634.187
Restricted due to subsidiaries and an								0
associated companie					1.534.851		(1.534.851)	0
Dissolution of revaluation								0
of an associated company				(26.333)			26.333	0
Dissolution of revaluation								0
of property and equipment				(118.150)			118.150	0
Equity 30.9.2018	329.574	13.120.490	82.393	3.702.248	1.911.707	(139.478)	6.505.131	25.512.065
1 January to 30 September 2017								
Equity 1.1.2017	250.000	3.153.857	62.500	4.122.522	295.951	(165.582)	4.852.702	12.571.950
Total comprehensive income for the period						10.517	1.628.845	1.639.362
Restricted due to an associated companies					45.483		(45.483)	0
Dissolution of revaluation								0
of an associated companie				(26.359)			26.359	0
Dissolution of revaluation								0
of property and equipment				(121.340)			121.340	0
Dividend paid (ISK 3.00 per share)							(750.000)	(750.000)
Equity 30.9.2017	250.000	3.153.857	62.500	3.974.822	341.434	(155.065)	5.833.764	13.461.312

Notes on pages 10 to 18 are an integral part of these consolidated interim financial statements.

Amounts are in ISK thousand

Statement of Cash Flows 1 January to 30 September 2018

	Notes	2018 1.1.-30.9.	2017 1.1.-30.9.
Cash flows from operating activities			
Profit before depreciation, amortisation and fair value changes		3.098.749	2.698.564
Operating items not affecting cash flows:			
Gain on sale of operating assets		(35.177)	(11.286)
Deferred income		0	(20.141)
		3.063.572	2.667.138
Changes in operating assets and liabilities:			
Inventories, change		(1.275.919)	(119.106)
Trade and other receivables, change		(1.252.841)	(1.098.986)
Trade and other payables, change		4.557.031	1.078.573
Changes in operating assets and liabilities		2.028.271	(139.519)
Interest income received		58.501	42.175
Interest paid on short-term borrowings		(246.639)	(19.561)
Paid income tax		(304.875)	(290.144)
Cash flows from operating activities		4.598.830	2.260.090
Cash flows from investing activities			
Purchase of shares in a subsidiary, net of cash acqured	16	(12.261.852)	(2.951)
Purchase of intangible assets		(17.482)	0
Purchase of property and equipment		(927.862)	(2.182.432)
Sale of property and equipment		78.216	42.115
Purchase / additions to investment properties		(6.001)	0
Dividend received		120.000	192.000
Investing activities		(13.014.981)	(1.951.267)
Cash flows from financing activities			
Dividend paid		0	(750.000)
New long-term borrowings		12.221.777	0
Repayment of loans from credit institutions		(57.547)	0
Short-term loan		0	1.500.000
Interest expense paid on long-term loans from credit institutions		(255.360)	(274.646)
Financing activities		11.908.871	475.354
Increase in cash and cash equivalents		3.492.720	784.177
Currency exchange difference on cash and cash equivalents		20.831	32.658
Cash and cash equivalents at the beginning of the year		2.800.082	2.266.435
Cash and cash equivalents at the end of the period		6.313.634	3.083.269

Notes on pages 10 to 18 are an integral part of these consolidated interim financial statements.

Amounts are in ISK thousand

Notes

1. Operations of the group

Festi hf. („the Group“, previously „N1 hf.“) is an Icelandic limited liability company. The Company's headquarters are located at Dalvegur 10-14, Kópavogur. The main objective of the Company is sale of fuel, goods and service to entities, groceries and related products, sale of electrical appliances and leasing of properties. The consolidated interim financial statements of the Group consists of the Company and its subsidiaries, referred to together as the Group and individually as a Group entity.

2. Statement of compliance

The consolidated interim financial statements of Festi hf. have been prepared in accordance with the International Financial Reporting Standard for interim financial reporting, IAS 34. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company for the year ended 31 December 2017.

When preparing these interim financial statements the same accounting policies were applied as for the last financial statements of the Group, except for the changes specified in note 3.b. In these interim financial statements new accounting policies due to the parent company´s acquisition of Hlekkur on 1 September are described, i.e. accounting policies not relevant in previous interim and annual financial statements, see note 3.a.

Following the acquisition of Hlekkur, classifIcation of service fee and maintainance expenses, the total of which is ISK 146 million (9 months 2017: ISK 146 million) has been changed. Those expenses are now included among sales and distribution expenses but were previously recognised as part of other operating expenses. The change in classification was made to harmonise classification of operating expenses in the Group. Comparative amounts have accordingly been reclassified. Change in classification had no impact on the Group´s results, assets, liabilities, equity or cash flows.

The Board of Directors of Festi hf. approved the consolidated interim financial statements on 28 November 2018.

3. Significant accounting policies

3.a Investment properties

The subsidiary Hlekkur ehf. leases some of its properties to third parties. Those properties are classified as investment properties. Investment properties are recognised at fair value through profit or loss.

Properties leased to parties outside the Group are recognised as investment properties in accordance with IAS 40 *Investment Property* since they are held for the purpose of generating rent revenue and for capital appreciation.

Investment properties are recognised at fair value at the reporting date. Changes in valuation of those assets are recognised in profit or loss as they occur. Investement properties are not amortised.

Building lot rights are assets under development that the Company has purchased with the purpose of building properties for lease. Those assets are recognised among investment properties but recognised at cost.

Investment properties are derecognised upon sale or when they no longer fulfill the criteria for that classification.

Gain or loss on sale of investment property, being the difference between the sale price and carrying amount at the date of sale, is recognised in profit or loss when sold.

Notes, contd.:

3.b New accounting standards

Two accounting standards became effective as at the beginning of the year, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* .

Based on current operations of the Group IFRS 9 has limited effect.

IFRS 15 applies to sale of goods and services. It includes a comprehensive framework the purpose of which is to provide information on the nature, amounts, timing and uncertainty related to revenue and cash flows from contracts with customers. According to the five step revenue recognition model of IFRS 15 revenue recognition is to reflect transfer of goods and services to customers and thereby transfer of control to the customer. The IFRS 15 revenue model differs from previous rules under which revenue recognition was based on transfer of risk and rewards. IFRS 15 did not impact the interim financial statements except that more detailed breakdown of revenue compared to previous interim financial statements is presented, see note 9.

4. Risk management

A part of its risk management the Group enters into derivative contracts to mitigate the effect of fluctuations in the world market price of oil. According to contractual provisions of the contracts, whose duration range from one to two months, the price of fuel is fixed in foreign currency. Those contracts only cover part of the Group´s purchase of oil. The contracts are cash-settled.

5. Presentation and functional currency

These consolidated interim financial statements are prepared and presented in Icelandic krona (ISK) which is the Company's functional currency. All amounts are presented in thousand of Icelandic krona unless otherwise stated.

6. Use of estimates and judgements

The preparation of consolidated interim financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

7. Seasonality

The Group´s operations are generally more extensive during the second and third quarters of the year than in the first and fourth quarters. Therefore the carrying amounts of the Group´s operating assets and liabilities are generally lower at the end of the first and fourth quarters than at the end of the second and third quarters.

Notes, contd.:

8. Operating segments

An operating segment is a component of the Group that engages in business activity from which it may earn revenue and incur expenses, including revenue and expenses relating to transactions with other segments of the Group. Segments are determined by the Company´s CEO, which regularly reviews the Group´s segments so as to decide upon how assets are allocated as well as to monitor their financial performance.

Operating results of segments, their assets and liabilities consist of items directly attributable to individual segments as well as those items which can be allocated in a logical way.

Capital expenditure of segments consist of the total cost of acquisition of operating and intangible assets.

Transactions between segments are priced on an arm's-length basis.

Following the acquisition of Hlekkur, a review of the Group´s segments is currently under way. The work has not been concluded but it could change the presentation of segments might change in the future. Current presentation is based on internal management report.

The Group´s three operating segments are the following:

1) Real estate consists of the operations of real estate of Festi hf. and the subsidiary Hlekkur ehf., Festi fasteignir ehf.

2) N1 includes operations of the companies comprising the Group before the acquisition of Hlekkur.

3) Hlekkur ehf. consists of the operation of grocery stores, electrical appliance stores and other operations of Hlekkur and its subsidiaries.

Revenue and expenses for the first 9 months of the year 2018 include the revenue and expenses of the parent company and the subsidiary Ego for the whole period but revenue and expenses of Hlekkur and its subsidiaries as from 1 September 2018, i.e. when those companies became a part of the Group.

Operating segment statement is presented on page 17 and 18.

9. Sales

	2018	2017
	1.1.-30.9.	**1.1.-30.9.**
Fuel	24.309.846	18.201.336
Other goods	12.091.303	8.265.811
Total sales	36.401.149	26.467.147
Breakdown of N1's revenue:		
Fishing industry	3.461.551	2.425.189
Transportation	4.965.549	1.036.563
Contractors	1.928.997	1.533.975
Foreign sale	2.465.078	2.629.197
Other industries and individuals	19.997.075	18.842.223
	32.818.251	26.467.147
Breakdown of Hlekkur's revenue:	**1.9.-30.9.**	
Convenience goods	2.748.749	
Electronics	834.149	
	3.582.898	
Total sales	36.401.149	26.467.147

Amounts are in ISK thousand

Notes, contd.:

10. Gross profit

	2018 1.1.-30.9.	2017 1.1.-30.9.
Fuel	5.333.284	4.745.697
Other goods	4.695.017	3.852.749
Total gross profit	10.028.302	8.598.446

11. Income tax

Effective income tax in profit or loss is specified as follows:

		2018 1.1.-30.9.		2017 1.1.-30.9.
Profit before income tax		1.953.317		1.978.496
Income tax based on current tax rate	20,0%	(390.663)	20,0%	(395.699)
Non-deductible expenses	0,2%	(4.103)	0,1%	(1.449)
Non-taxable income on shares	(1,8%)	34.870	(2,4%)	47.497
Corrections due to prior years	(1,3%)	25.754	0,0%	0
Effective income tax	17,1%	(334.142)	17,7%	(349.651)

12. Payable to credit institutions

In September 2018, related to financing of the acquisition of the subsidiary Hlekkur ehf., all long-term borrowings of the parent company were refinanced. A long-term borrowing in the amount of ISK 8.0 billion was settled and new borrowings made. The total long-term borrowings of Festi´s group are currently in the amount of ISK 35.9 million. The borrowing are secured by pledge in real estate and inventories. Following is a breakdown of borrowings from credit institurions as at 30 September 2018. All the loans are denominated in ISK.

	30.9.2018		31.12.2017	
	Interest rate	Book value	Interest rate	Book value
Non-indexed loan on floating interests	5,2%	15.028.366	5,1%	8.000.000
Indexed loan on fixed interests	3,9%	11.840.960		
Indexed loan on floating interests	3,8%	9.021.777		
Long-term loans total		35.891.103		8.000.000
Short-term loan	5,3%	2.000.000		
Total payable to credit institiutions		37.891.103		8.000.000

Loan maturities are specified as follows:

	30.9.2018	31.12.2017
Year 2019	1.736.572	0
Year 2020	1.729.998	0
Year 2021	1.737.334	68.000
Year 2022	1.747.652	408.000
Subsequent	28.939.547	7.524.000
Total payable to credit insitutions	35.891.103	8.000.000

Amounts are in ISK thousand

Notes, contd.:

13. Deferred tax liabilities

Deferred tax liabilities at the end of the period are specified as follows:

	30.9.2018	31.12.2017
Property, equipment and investment properties	3.081.928	1.464.297
Intangible assets	866.352	23.592
Other items	15.321	(3.174)
Deferred tax liabilities	3.963.601	1.484.715

14. Related parties

	30.9.2018	
	Assets	Liabilities
Associated companies	68.819	69.510

	30.9.2017	
	Assets	Liabilities
Associated companies	152.147	113.198

15. Ratios

The Group's key ratios are specified as follows:

	2018 1.1.-30.9.	2017 1.1.-30.9.
Statement of income and comprehensive income		
Inventory turnover: cost of goods sold * / average inventories of the period	8,08	7,67
Sales days in trade receivables: average trade receivables of the period / goods and services sold *	26	30
Profit before depreciation, amortisation and financial items / gross profit	30,9%	31,4%
Salaries and other personnel expenses / gross profit	39,1%	39,0%
Sales and distribution expenses / gross profit	18,9%	18,7%
Other operating expenses / gross profit	15,1%	14,3%

	30.9.2018	31.12.2017
Statement of Financial Position		
Current ratio: Current assets / current liabilities	1,11	1,96
Liquidity ratio: (Current assets - inventories) / current liabilities	0,67	1,30
Leverage: Net interest bearing liabilities ** / EBITDA***	2,71	1,38
Equity ratio: Equity / total capital	31,8%	49,9%
Return on equity: Profit for the period * / average equity for the period	12,7%	16,1%

* Operating figures are calculated on annual basis.

** Average net interest bearing liabilities for the last 12 months.

*** EBITDA for the last 12 months.

Amounts are in ISK thousand

Notes, contd.:

16. Acquisition of a subsidiary

On 30 July 2018 the Icelandic Competition Authority (ICA) approved N1´s acquisition of all share capital of Festi hf. subject to certain conditions. Festi (now named Hlekkur) operates grocery stores under the brand names of Krónan, Kr, Nóatún and Kjarval, as well as the electrical appliance store ELKO and Bakkinn warehouse hotel. The date of acquisition was 1 September 2018. Festi and its subsidiaries are included in these consolidated interim financial statements as from that date. In September the name of the parent company was changed from N1 to Festi but the name of the subsidiary from Festi to Hlekkur. The companies´s new names are hereafter used in this note.

During the month from the acquisition date to the end of the third quarter total turnover of Hlekkur and its subsidiaries was in the amount of ISK 3,583 million and their EBITDA in the amount of ISK 250 million. According to Hlekkur´s budget total turnover from the date of acquisition to the end of the year, is estimated to be close to ISK 15,100 million and EBITDA to be close to ISK 1,270 million.

The objective of the acquisition is operational optimisation and subsequently more robust and better service for customers of both companies. Significant changes have, and will continue, to take place in those markets in which the companies operate. Annual synergy of the acquisition are in the range of ISK 500 to 600 million when fully obtained, 12 to 18 months subsequent to the acquisition date.

ICA´s conditions

ICA´s main conditions related to N1's acquisition of Festi are as follows:

1. New resellers are to get improved access to wholesale of liquid fuel.
2. Better access to the service of Olíudreifing ehf.
3. Sale of five self-service stations to new and independent parties in the fuel market. More specifically, three self-service fuel stations currently operated under the brand name of Dælan, located at Fellsmúli and Staldrið in Reykjavík and at Hæðarsmári 8 in Kópavogur, and two stations operated under the brand name of N1, at Salavegur in Kópavogur and Vatnagarðar in Reykjavík.
4. Sale of the grocery store of Kjarval located at Hella.

Following the settlement agreement an independent specialist was to be appointed, the role of whom is to follow up on and monitor the procedures and instructions specified in the settlement.

Acquisition price, its payment and financing

The acquisition was financed with borrowings, on one hand, and issue of new share capital of Festi on the other. Futhermore, Festi used some of its current cash to finance part of the acquisition. Festi issued 79,573, 913 shares to the previous shareholders of the subsidiary. The final purchase price was determined by the market price of the Company´s share as at the acquisition date, being 126.5 per share. The total purchase price was in the amount of ISK 25,102 million. Following is a breakdown of the purchase price.

Acquisition price of all share capital of Hlekkur	25.102.100
Cash payment	15.036.000
Paid by issue of new share capital of Festi hf.	10.066.100
Total	25.102.100

By the transaction the former shareholders of the subsidiary Hlekkur acquired 24.1% of all shares in the parent company Festi. Half of those new shares are subject to lock-up provisions, as sale of them is prohibited to year-end 2018.

In addition to the purchase price, direct acquisition-related cost in the amount ISK 229 million has been expensed in 2018 (2017: ISK 69 million). The cost has been expensed in profit or loss.

Amounts are in ISK thousand

Notes, contd.:

16. Acquisition of a subsidiary, contd.

Identifiable assets and liabilities acquired

According to International Financial Reporting Standards an acquirer is required to carry out a purchase price allocation at the acquisition date, i.e. determine the fair value of identifiable assets and liabilities of the acquired company. The purchase price allocation has been completed. However, if new information becomes evident within one year from the acquisition date regarding the position of assets and / or liabilties at the acquisiton date the purchase price allocation could change.

The following table specifies the fair value of acquired assets and liabilities of Hlekkur and its subsidiary according to the purchase price allocation.

Property and equipment	15.561.100
Investment properties	8.685.000
Intangible assets	4.320.000
Shares in other companies	32.000
Inventories	3.162.000
Trade receivables	565.000
Other short-term receivables	99.000
Cash and cash equivalents	2.774.000
Loans from credit institutions	(15.702.000)
Deferred tax liabilities	(2.543.000)
Trade payables	(4.363.000)
Current tax payable	(256.000)
Other short-term liabilities	(1.068.000)
Fair value of identifiable asset acquired less identifiable liabilities assumed	11.266.100
Goodwill	13.836.000
Purchase price	25.102.100

Goodwill

The excess of purchase price over fair value of identifiable assets acquired less identifiable liabilities assumed is recognised as goodwill. Goodwill is not amortised but tested annually for impairment or more often if there is an indication of impairment.

Goodwill arising from the acquisition of Hlekkur and its subsidiaries is due to estimated synergy related to optimisation with respect to purchasing, operating, distribution and salary expenses. Furthermore, goodwill of individual cash-generating units are related to personnel, processes and estimated future benefit of the units. Goodwill arising from acquisition is not tax-deductible.

Amounts are in ISK thousand

16. Acquisition of a subsidiary, contd.

Purchase price allocation, contd.

Fair value assessment of revalued assets and goodwill are based on the following assumptions:

Assets acquired	Changes in value and assumptions upon which purchase price allocation is based
Property and equipment	According to fair value assessment at the acquisition date of 1 September 2018 fair value of Hlekkur´s real estates and premises is ISK 3,051 million higher than their carrying amount. Fair value of equipment is estimated to be close to carrying amount and was therefore not estimated. Fair value of real estates and premises was estimated in accordance with the International Financial Reporting Standard IFRS 13 *Fair Value Measurement.* The fair value assessment of those assets fall under level 3 in the fair value hierarchy. The fair value assessment is based on discounted cash flows using fixed prices. Future revenue from assets is estimated based on current lease agreements and estimated market lease prices after the expiration of current lease agreements. A full utilisation of real estates is not assumed. Furthermore, it is assumed in the estimation of revenue that a part of lease revenue will not be collected. The most significant expenses in the cash flows assessment are property tax, maintenance, insurance premiums and administrative costs. Property tax is based on rateable value for the year 2019 and municipalities´ rate of levy for the year 2018. Other expense items are estimated based on common benchmarks applied in the real estate market. The estimated cash flows from assets is discounted based on estimated weighted average cost of capital (WACC). Required rate of return on equity is based on market rate of return on government backed market debt securities, risk premium for the real estate market and a specific risk premium for individual properties. A 30% equity ratio is assumed. The assessment of real rate of return on debt is based on estimated interest term for individual real estate assets. Hlekkur´s real estates and premises for own use will be recognised applying the revaluation model in Festi´s consolidated financial statements, as Festi´s real estates and premises are recognised. Other fixed tangible non-current assets of Festi will be recognised at amortised cost. Deferred tax is recognised due to the difference between fair value and carrying amount.
Investment property	Some of Hlekkur´s real estates are leased out to third parties and recognised as investment properties in Festi´s consolidated financial statements. Investment properties are recognised at fair value through profit or loss. According to fair value assessment the fair value of investment properties is ISK 390 million lower than carrying amount at the acquisition date. Fair value of investment properties was assessed applying the same valuation model as for the assessment of fair value of real estate and premises of assets for own use. Deferred tax will be recognised due to the difference between fair value and carrying amount of investment properties.
Goodwill	Goodwill is the excess of purchase price over fair value of identifiable acquired assets and liabilities. Goodwill arising from the acquisition of Hlekkur and its subsidiaries is due to estimated synergy related to optimisation with respect to purchasing, operating, distribution and salary expenses. Furthermore, goodwill of individual cash-generating units are related to personnel, processes and estimated future benefit of the units. Goodwill arsing from acquisition is not tax-deductible. Goodwill is not amortised but will be tested annually for impairment.
Other intangible assets	Purchase price allocation related to the acquisition of Hlekkur is in accordance with IFRS 3. The date of acquisition was 1 September 2018. Four cash-generating units were defined. Excess price was allocated to three of them, i.e. electrical appliance stores, grocery stores and warehouse operations. No intangible assets were defined related to the last cash-generation unit, i.e. real estate operations. Two identifiable intangible assets were defined, the brand names of Krónan and Elko, and their fair value was assessed in accordance with IFRS 13 *Fair Value Measurement*. The method of relief from royalty was applied in determinating fair value of brand names. Intangible assets are recognised at amortised cost and deferred tax recognised due to the different between fair value and carrying amount.

Amounts are in ISK thousand

Operating segments 30 September 2018

First nine months 2018	N1	Hlekkur	Real estate	Inter-segment revenue	Total
Operating revenue	32.819.323	3.582.915	0	(1.089)	36.401.149
Other revenue	309.566	26.523	1.697.772	(1.628.164)	405.697
Total segment revenue	33.128.889	3.609.438	1.697.772	(1.629.254)	36.806.845
Total operating expenses of segments	(31.505.172)	(3.471.092)	(361.086)	1.629.254	(33.708.096)
Segment EBITDA	1.623.717	138.345	1.336.686	0	3.098.749
Segment depreciation and amortisation	(315.049)	(40.552)	(454.864)	0	(810.465)
Fair value changes of investment properties	0	0	10.951	0	10.951
Share of profit from associates	174.351	0	0	0	174.351
Operating result of segments	1.483.019	97.794	892.773	0	2.473.587
Net finance expenses					(520.269)
Income tax					(334.142)
Profit for the period					1.619.175
30. september 2018					
Segment assets	34.613.786	20.349.656	40.272.755	(18.748.782)	76.487.415
Unallocated assets					3.674.890
Total assets					80.162.305
Unallocated liabilities					54.650.240
Investments in properties and equipment	360.403	58.320	532.622	0	951.345
Depreciation and amortisation	(315.049)	(40.552)	(444.606)	(10.258)	(810.465)

Amounts are in ISK thousand

Operating segments 30 September 2017

	N1	Hlekkur	Real estate	Inter-segment revenue	Total
First nine months 2017					
Operating revenue	26.467.147	0	0	0	26.467.147
Other revenue	294.035	0	1.396.334	(1.396.334)	294.035
Total segment revenue	26.761.182	0	1.396.334	(1.396.334)	26.761.182
Total operating expenses of segments	(25.185.997)	0	(272.955)	1.396.334	(24.062.618)
Segment EBITDA	1.575.185	0	1.123.379	0	2.698.564
Segment depreciation and amortisation	(320.557)	0	(412.869)	0	(733.426)
Share of profit from associates	237.483	0	0	0	237.483
Operating result of segments	1.492.111	0	710.510	0	2.202.621
Net finance expenses					(224.125)
Income tax					(349.651)
Profit for the period					1.628.845
30. september 2018					
Segment assets	10.825.697	0	15.114.146	0	25.939.843
Unallocated assets					3.083.269
Total assets					29.023.112
Unallocated liabilities					15.561.800
Investments in properties and equipment	296.490	0	1.888.893	0	2.185.383
Depreciation and amortisation	(320.557)	0	(412.869)		(733.426)

Amounts are in ISK thousand